

## **Great Depression**

The Great Depression is referred to as the greatest and also the longest economic downturn or recession in modern history. It started in the USA and thereafter, had a rippling effect on the economies of the world.

It is said that the Great Depression started with the USA stock market crash in October 1929. To be precise, the stock market crashed on October 24, 1929 which is known in American history as the "Black Thursday".

The impact of crashing of the stock market resulted in panic among the investors in Wall Street, wiping out almost \$30 billion from the stock market. This resulted in crashing of other major financial institutions such as banks.

It is said that around 5000 banks went bankrupt as an aftermath of the stock market crash of 1929. One of such banks was Boden-Kredit Anstalt, which was Austria's most important bank.

There was a significant drop in the consumer spending and investments, that caused a major decline in industrial output and laying off employees from companies.

By 1933, the unemployment rate had risen to 25% and the GDP of the USA contracted to half of its value due to deflation. Around 15 million jobs were lost in the economy.

The other significant impact of the great depression was that many farmers lost all their properties due to the drought and over cultivation in Midwest America. This was termed as the "Dust Bowl" which destroyed agricultural lands.

### **Causes of Great Depression**

Great depression is attributed to the combination of the following factors

1. Tight monetary policies adopted by the central bank of America.
2. Stock market crash of 1929
3. The failure of banks which was the impact of the stock market crash as more people withdrew all their savings from the banks leading to closure.
4. Reduction in purchases due to diminished savings.
5. The passing of Smoot- Hawley tariff or the tariff Act of 1930, that imposed high taxes on imported goods. As retaliation for the same,

trade partners imposed high tariffs on goods made in the USA, which resulted in a decline in world trade by around two-third between the periods of 1929-34.

6. Environmental degradation by drought and farming practices that did not help in soil preservation created large areas of non agricultural land. This was known as the Dust Bowl in history. This was coupled with dust storms which destroyed crops and livestock.

## **How Great Depression ended**

The end of the great depression can be attributed to many factors, the most prominent among them are:

### **1. The New Deal**

The New deal refers to the policies that were put into effect by Franklin Roosevelt, the new elected President of the United States. He orchestrated the policies like Emergency Bank Act, Emergency Farm Mortgage Act and Agricultural Adjustment Act.

These policies were implemented with the aim of stabilising the economy and providing security to the farmers and their crops

All these policies and other new policies paved the way for injecting stability in the economy and lower employment rates across the country.

### **2. The World War II**

Some economists suggest that the start of World War II was one of the factors of ending the Great Depression as due to the joining of the USA in war, the government spending shot up significantly, thus leading to more employment.

This coupled with sharp reduction at the end of world war II in areas of taxes and regulation contributed to the end of the Great Depression.